

BANK OF NOVA SCOTIA JAMAICA LIMITED

Notes to Financial Statements

31 October 1995

1. Identification

The Bank of Nova Scotia Jamaica Limited ('the Bank') is incorporated under the laws of Jamaica. It is a 70% subsidiary of the Bank of Nova Scotia, which is incorporated in Canada.

The Bank is licensed and these financial statements have been prepared in accordance with the provisions of the Banking Act, 1992.

The Bank's subsidiaries, which together with the Bank are referred to as 'the Group', and its associated company are as follows:

	Holding	Financial Year End
Subsidiaries		
Scotiabank Jamaica Trust and Merchant Bank Limited	100%	31 October
The West India Company of Merchant Bankers Limited	100%	31 October
Scotia Jamaica Building Society	100%	31 October
Brighton Holdings Limited	100%	31 October

Associated Company

The Bank sold its 100% holding in Scotia Jamaica Insurance Agency Limited to Industrial Finance Holdings Limited during the year.

The principal activities of the Group are banking and other financial services.

These financial statements are presented in Jamaican dollars.

2. Significant Accounting Policies

(a) Accounting Convention

The Financial statements are prepared under the historical cost convention, modified for the inclusion of certain fixed assets and investments at valuation.

(b) Basis of consolidation

The consolidated financial statements combine the financial position and results of operations of the Bank and its subsidiaries, after eliminating intra-group balances and, on the basis set out below, include the Bank's interest in its associated company.

(c) Associated company

The Bank accounts for its interest in its associated company by the equity method. An associated company is a company, other than a subsidiary, over which the group exercises a significant measure of influence, including representation on the board of directors, and in which it owns 20% or more of the issued capital.

As indicated in note 1, the financial year end of an associated company, Industrial Finance Holdings Limited (IFH), is not coterminous with the rest of the Group. The Group's share of IFH'S profits for the year is based on four months' apportionment of profits as reflected in IFH's audited financial statements for the year ended 31 December 1994,

and the unaudited results for the eight months ended 31 August 1995.

(e) Interest

Interest income and expense are recorded on the accrual basis except that, where collection of interest income is considered doubtful or payment is outstanding for more than 180 days, interest is taken into account on the cash basis.

(f) Foreign currency transaction

Assets and liabilities denominated in foreign currencies are translated into Jamaican dollars at the exchange rates prevailing at the balance sheet date. This is, in the case of each currency, the mid point between the Bank's buying and selling rates at that date.

Transactions in foreign currencies are translated at the rates of exchange ruling at the dates of those transactions.

Gains and losses arising from fluctuations in exchange rates are included in the revenue and expense statement.

(g) Investments

Investments are stated at the lower of cost and market value, plus accrued interest.

(h) Provision for loan losses

The provision for loan losses is based on an assessment of each loan taking into consideration all factors, including collateral held and business and economic conditions.

(i) Fixed assets

Land and buildings are stated at an independent valuation obtained in 1994, with subsequent additions at cost. Other fixed assets are shown at cost. Depreciation and amortization are calculated by the straight

line method at rates estimated to write off the assets over their expected useful lives which range from three years to forty years.

(j) Deferred taxation

Taxation payable due to timing differences between charges allowed for taxation purposes and those shown in these financial statements is provided for only to the extent that there is a reasonable probability that the liabilities will arise in the foreseeable future.

(k) Pension plan costs

Ordinary contributions by the Group to fund benefits under the pension plan operated by trustees for employees of the Group are charged as an expense in the year in which they are due. Special contributions are charged as an expense when paid.

(l) Finance lease

The gross investment in finance leases net of unearned income is recorded as a receivable balance.

3. Profit before Taxation

In arriving at the profit before taxation, the following have been charged:

	The Group		The Bank	
	1995	1994	1995	1994
	\$'000	\$'000	\$'000	\$'000
Directors' Emoluments				
Fees	1,470	892	1,008	892
Others (salaries of full-time officers who are directors)	11,712	8,296	11,712	8,296
Auditors' remuneration	4,125	3,662	2,958	2,532
Depreciation	76,790	68,249	70,939	58,874

4. TAXATION

Income tax is computed at 33 1/3% of the profit for the year as adjusted for tax purposes. The charge for taxation comprises:

	The Group		The Bank	
	1995 \$'000	1994 \$'000	1995 \$'000	1994 \$'000
Current income tax:				
Charge for the current year	641,564	684,775	634,314	674,125
Adjustment for under/(over) Provision of prior year's charge	1,698	(216)	1,698	(216)
Deferred income tax	17,458	(85,412)	6,809	(85,412)
Share of associated company's charge	660,720	599,147	642,821	588,497
	42,946	23,224	-	-
	703,666	622,371	642,821	588,497

5. Extraordinary Item

	The Group		The Bank	
	1995 \$'000	1994 \$'000	1995 \$'000	1994 \$'000
Levy on profits	154,314	-	151,193	-

The Provisional collection of Tax (Specified Financial Institutions) (Levy on Profits) Order 1994 introduced a levy on specified financial institutions. The Order required that payments at the rate of 23% be made in equal instalments on 15 December 1994 and 15 March 1995 based on four times the average monthly pre-tax profits of relevant institutions, as reported to the Bank of Jamaica, for the period 1 January 1994 to 30 June 1994.

The Order was confirmed, with modifications, on 30 May 1995 by the House of Representatives. The Modified Order requires that the levy be payable on the average monthly audited pre-tax profits of the specified financial institution for the period from 1 December 1994 to 31 March 1995.

The amounts of \$154,314,000 for the Group and \$151,193,000 for the Bank reflected in these financial statements as levy on profits were calculated in accordance with the Modified Order, with the exception that it was based on four times the average monthly pre-tax profits for the twelve months ended 31 October 1995.

6. Dividends

Dividends comprise:

	The Group		The Bank	
	1995 \$'000	1994 \$'000	1995 \$'000	1994 \$'000
Interim dividends paid,				
\$0.45 (1994 - \$0.31) per stock unit	329,314	225,641	329,314	225,641
Interim dividend payable				
\$0.30 (1994 - \$0.36) per stock unit	219,542	263,451	219,542	263,451
	548,856	489,092	548,856	489,092

Tax of \$70,193,164 (1994: \$48,279,287) has been withheld from the interim dividends paid and the dividend payable is subject to the deduction of withholding tax.

7. Earnings Per Stock Unit

The earnings per stock unit calculations are based on the net profit before and after extraordinary item (note 5) and 731,808,000 ordinary stock units in issue at the end of both years.

8. Statutory Reserves and Deposits

Cash includes \$5,974,762,000 (1994: \$3,691,123,000) for the Group and \$5,905,725,000 (1994: \$3,632,543,000) for the Bank, under section 14 (i) of the Banking Act, 1992, held substantially on a non-interest-bearing basis at Bank of Jamaica as a cash reserve; accordingly, it is not available for investment or other use by the Bank.

Government securities of the Group and the Bank include \$943,835,000 held indefinitely by Bank of Jamaica as a Special Deposit under section 28A of the Bank of Jamaica Act. These securities may not be dealt with by the Bank and, on maturity, must be replaced by similar securities or cash.

9. Provision for Loan Losses

	The Group		The Bank	
	1995 \$'000	1994 \$'000	1995 \$'000	1994 \$'000
At beginning of year	361,069	107,847*	360,984	106,097*
Charged against revenue during the year	81	256,684	-	256,684
Bad debts written off	(7,346)	(6,943)	(7,346)	(3,086)
Recoveries of bad debts	1,256	3,481	1,256	1,289
At end of year	335,060	361,069	354,894	360,984

10. Leased Assets

1995 \$'000	1994 \$'000
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Gross investment in finance leases	228,555	42,873
Unearned income	(99,788)	(21,076)
Net investment in finance leases	128,767	21,797

*Reclassified for comparative purposes

11. Fixed Assets

	The Group				
	Freehold Land and Buildings \$'000	Leasehold Improvements \$'000	Furniture, Fixtures & Equipment \$'000	Capital Work-In Progress \$'000	Total \$'000
At cost or valuation					
1 November 1994	740,724	11,250	397,937	-	1,149,911
Additions	-	254	101,128	228,360	329,742
Disposals	-	(363)	(25,836)	-	(26,199)
Transfers	154,237	-	-	(154,237)	-
31 October 1995	894,961	11,141	473,229	74,123	1,453,454
Depreciation					
1 November 1994	12,893	7,551	145,400	-	165,844
Charge for the year	16,881	1,319	56,221	-	74,421
On disposals	-	(363)	(24,282)	-	(24,645)
31 October 1995	29,774	8,507	177,339	-	215,620
Net book value					
31 October 1995	865,187	2,634	295,890	74,123	1,237,834
31 October 1994	727,831	3,699	252,537	-	984,067

			The Bank		
	Freehold Land and Buildings \$'000	Leasehold Improvements \$'000	Furniture, Fixtures & Equipment \$'000	Capital Work-in Progress \$'000	Total \$'000
At cost or valuation					
1 November 1994	657,015	10,646	386,817	-	1,054,478
Additions	-	207	99,374	228,360	327,941
Disposals	-	(363)	(25,796)	-	(26,159)
Transfers	154,237	-	-	(154,237)	-
31 October 1995	811,252	10,490	460,395	74,123	1,356,260
Depreciation					
1 November 1994	11,066	7,292	143,102	-	161,460
Charge for the year	14,792	1,212	54,935	-	70,939
On disposals	-	(363)	(24,243)	-	(24,606)
31 October 1995	25,858	8,141	173,794	-	207,793
Net book value					
31 October 1995	785,394	2,349	286,601	74,123	1,148,467
31 October 1994	645,949	3,354	243,715	-	893,018

Land and buildings were professionally valued as at 31 March 1994 by Property Consultants Limited, Real Estate Brokers and Appraisers, of Kingston, Jamaica - land at fair market value and buildings at depreciated replacement cost (note 15).

12. Capital

	1995 \$'000	1994 \$'000
Authorised -		
Ordinary shares of \$1 each	750,000	750,000

Issued and fully paid -

Ordinary stock units of \$1 each	731,808	731,808
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During 1994 the Bank increased its authorised capital to \$750,000,000 by the creation of 500,000,000 ordinary shares of \$1 each ranking pari passu in all respects with the existing ordinary shares and made a bonus issue of two ordinary shares for each stock unit issued. The issue was made by capitalising \$487,872,000 of the retained earnings reserve (note 14).

13. Reserve Fund

	The Group		The Bank	
	1995	1994	1995	1994
	\$'000	\$'000	\$'000	\$'000
At beginning of year	406,230	203,305	387,000	187,000
Transfer for year	124,800	202,925	120,000	200,000
At end of year	531,030	406,230	507,000	387,000

As required by the Banking Act, the Group makes transfers of a minimum of 15% or 10% of net profits, depending on the circumstances, to the reserve fund.

14. Retained Earnings Reserve

	The Group		The Bank	
	1995	1994	1995	1994
	\$'000	\$'000	\$'000	\$'000
At beginning of year	445,192	422,064	407,192	395,064
Transfer for year	496,000	520,000	480,000	500,000
	941,192	942,064	887,192	895,064
Transfer to capital reserve for issue of bonus shares by subsidiary	-	(9,000)	-	-

Capitalised for issue of bonus shares (note 12)	-	(487,872)	-	(487,872)
At end of year	941,192	445,192	887,192	407,192

Transfers to the retained earnings reserve are made at the discretion of the board, such transfers must be notified to the Bank of Jamaica.

15. Capital Reserve

	The Group		The Bank	
	1994		1994	
	\$'000		\$'000	
At beginning of year -				
Realised gain transferred from profit and loss account of associated company	9,023	-	-	-
Unrealised surplus on revaluation of fixed assets:				
Associated company	5,495	2,734	-	-
Bank	500,885	-	476,245	-
Goodwill arising on consolidation	(606)	-	-	-
Unrealised gain on revaluation of quoted investments of associated company	19,321	17,237	-	-
Reserves of subsidiary capitalised through bonus issues	9,000	-	-	-
Unrealised gain on revaluation of investments	135	-	-	-
	543,253	19,971	476,245	-

Movements during the year -

Realised gain transferred from profit
and loss account of associated

company	2,778	9,023	-	-
Bonus issued by associated company				
from revenue reserves	21,441	-	-	-
	24,219	9,023	-	-
Unrealised gain on revaluation of fixed assets	-	500,885	-	476,245
Unrealised gain on revaluation of assets of associated company:				
Fixed assets	-	2,761	-	-
Investments	-	2,084	-	-
Goodwill arising on consolidation	-	(606)	-	-
Bonus issue by subsidiary from retained earnings reserve	-	9,000	-	-
Unrealised gain on revaluation of investments of associated company	10,068	135	-	-
	34,287	523,282	-	476,245
At end of year	577,540	543,253	476,245	476,245

	The Group		The Bank	
	1995	1994	1995	1994
	\$'000	\$'000	\$'000	\$'000
This comprises:				
Realised gain transferred from profit and loss account of associated company	11,801	9,023	-	-
Unrealised surplus on revaluation of fixed assets:				
Associated company	5,495	5,495	-	-
Bank and subsidiaries	500,885	500,885	476,245	476,245
Goodwill arising on consolidation	(606)	(606)	-	-
Unrealised gain on revaluation of				

quoted investments of associated company	29,389	19,321	-	-
Reserves of subsidiary and associated company capitalised through bonus share issues	30,441	9,000	-	-
Unrealised gain on revaluation of investments	135	135	-	-
	577,540	543,253	476,245	476,245

16. Pension plan

A contributory pension plan is administered by Trustees for employees of the Group. Benefits to members are based on the highest 60 consecutive months' salary, subject to a maximum salary of \$500,000 per annum for service before 1 November 1987, and unrestricted thereafter.

An actuarial valuation of the fund as of 31 October 1994 disclosed that the liabilities in respect of past services were fully funded as at that date, and the special employers' contributions of \$932,000 per annum for ten years are to continue until 1995.

The directors have accepted the actuaries' recommendation for the employers to contribute at 7% of salary effective 1 November 1994.

The employers' contributions for the year were as follows:

	The Group		The Bank	
	1995	1994	1995	1994
	\$,000	\$'000	\$'000	\$'000
Ordinary contributions	36,659	46,399	35,807	45,383
Special contributions	932	932	932	932
	37,591	47,331	36,739	46,315

17. Capital Commitments

	The Group		The Bank	
	1995	1994	1995	1994
	\$'000	\$'000	\$'000	\$'000
Capital expenditure:				
Authorised and contracted for	456,110	227,115	456,110	227,115